

Water Utilities

Price:	\$43.90
Fair Value Estimate:	\$50.00
52-Week Range:	\$32.09 - \$45.50
Market Cap (MM):	9,474
Shr.O/S-Diluted (mm):	215.8
Average Daily Volume:	1,033,917
Book Value:	\$17.73
Dividend:	\$0.94
Yield:	2.1%

FYE: Dec	2019E	2020E	2021E
EPS:	\$1.50E	\$1.56E	\$1.77E
Prior EPS:	NC	NC	\$1.70
P/E Ratio:	29.3x	28.1x	24.8x

Quarterly EPS:

Q1	\$0.28A	\$0.56E	\$0.63E
Q2	\$0.37A	\$0.19E	\$0.24E
Q3	\$0.44E	\$0.36E	\$0.39E
Q4	\$0.41E	\$0.46E	\$0.50E

Quarterly Revenue (M):

Q1	\$201A	\$681E	\$721E
Q2	\$219A	\$392E	\$423E
Q3	\$357E	\$380E	\$412E
Q4	\$560E	\$596E	\$633E
Year:	\$1,345E	\$2,048E	\$2,189E



September 18, 2019

Aqua America, Inc.

(WTR) - BUY

DELCORA Acquisition Further Increases Pennsylvania Exposure; Reiterate BUY Rating, Fair Value to \$50

PORTFOLIO MANAGER BRIEF

After the close yesterday, Aqua America announced its second large acquisition in the State of Pennsylvania within a one-year period. The company will pay \$276.5MM for an estimated 165,000 retail wastewater customers from the Delaware County Regional Water Quality Control Authority (DELCORA). The announcement was widely anticipated, given previous disclosures that discussions were underway. We expect the deal to close in late 2020, and are making adjustments to our 2021 estimates to reflect anticipated benefits from the acquisition. We reiterate our BUY rating, and raise our Fair Value from \$44 to \$50, based on a P/E of 28x our 2021 EPS estimate of \$1.77.

ANALYST NOTES

- DELCORA Acquisition As Good as it Gets.** Pennsylvania has proven to be a target rich environment for Aqua America in terms of M&A, with the company once again announcing a sizable transaction. Following closely on the \$4.3B Peoples Gas acquisition announcement, Aqua has come to terms with DELCORA, an expansive wastewater treatment system spanning 42 municipalities in the southeastern part of the state. The price (\$276.5MM) looks very favorable, and given the number of estimated customers, likely will not generate goodwill. In the release, the company indicated the system needs \$1.2B of investment through 2041, which amounts to meaningful CAPEX annually over the period. And of course, Aqua knows southeastern Pennsylvania extremely well, given its original roots dating back to its Philadelphia Suburban Corporation (previous ticker symbol PSC) days. We expect no problems with the transaction being approved by the Pennsylvania Public Utility Commission, and anticipate a closing in late 2020.
- Summary/Valuation.** The last three sizable transactions - DELCORA, Peoples Gas and Limerick have all been in Aqua America's home state of Pennsylvania, which also happens to be the most constructive regulatory environment in the U.S., in our opinion. Returns are solid, the PAPUC has a great reputation of working with utilities to improve infrastructure and manage ratepayer costs, which we note cannot be said of all states across the country. We believe Aqua's demonstrated ability to significantly grow its presence (and future earnings) is worthy of a bump in its valuation, and we raise not only our 2021 EPS estimate, but our P/E multiple assumption. We reiterate our BUY rating and increase our Fair Value target from \$44 to \$50, based on a P/E of 28x our 2021 EPS estimate of \$1.77.

IMPORTANT DISCLOSURES

Research Analyst Certification

I, Michael Gaugler, the Primarily Responsible Analyst for this research report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views I expressed in this research report.

Janney Montgomery Scott LLC ("Janney") Equity Research Disclosure Legend

Aqua America, Inc. currently is, or during the past 12 months was, a Janney Montgomery Scott LLC client. Janney Montgomery Scott LLC, provided investment banking related services.

Janney Montgomery Scott LLC currently acts as a market-maker in the securities of Aqua America, Inc..

Janney Montgomery Scott LLC managed or co-managed a public offering of securities for Aqua America, Inc. in the past 12 months.

Janney Montgomery Scott LLC received compensation for investment banking services from Aqua America, Inc. in the past 12 months.

Janney Montgomery Scott LLC intends to seek or expects to receive compensation for investment banking services from Aqua America, Inc. in the next three months.

The research analyst is compensated based on, in part, Janney Montgomery Scott's profitability, which includes its investment banking revenues.

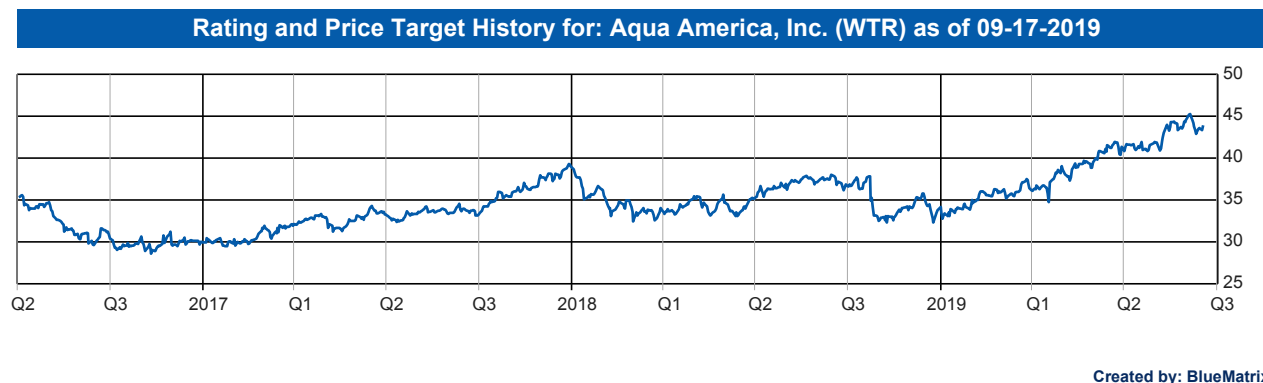
Definition of Ratings

BUY: Janney expects that the subject company will appreciate in value. Additionally, we expect that the subject company will outperform comparable companies within its sector.

NEUTRAL: Janney believes that the subject company is fairly valued and will perform in line with comparable companies within its sector. Investors may add to current positions on short-term weakness and sell on strength as the valuations or fundamentals become more or less attractive.

SELL: Janney expects that the subject company will likely decline in value and will underperform comparable companies within its sector.

Price Charts



Janney Montgomery Scott Ratings Distribution as of 06/30/2019

Rating	Count	Percent	IB Serv./Past 12 Mos.*	
			Count	Percent
BUY [B]	179	55.59	40	22.35
NEUTRAL [N]	142	44.10	14	9.86
SELL [S]	1	0.31	0	0.00

*Percentages of each rating category where Janney has performed Investment Banking services over the past 12 months.

Other Disclosures

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